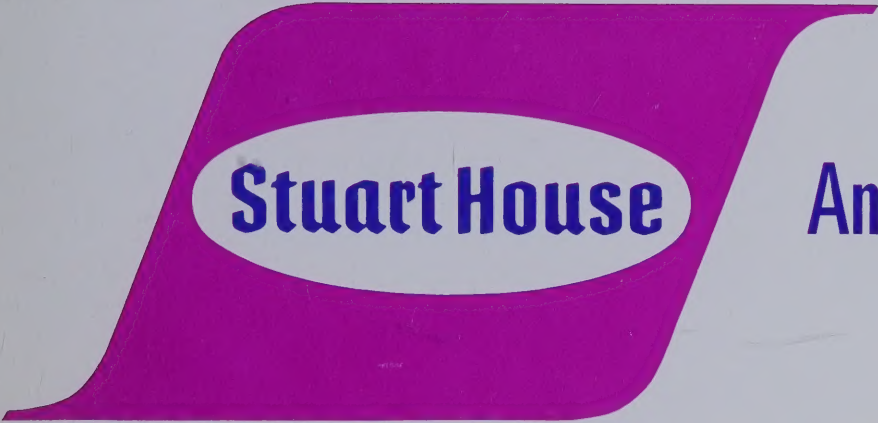


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Stuart House

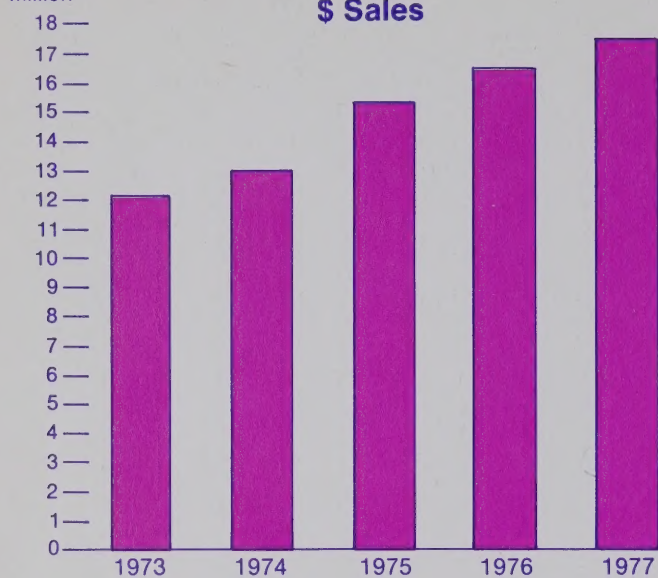
Annual Report 1977

Stuart House International Limited

THE HIGHLIGHTS

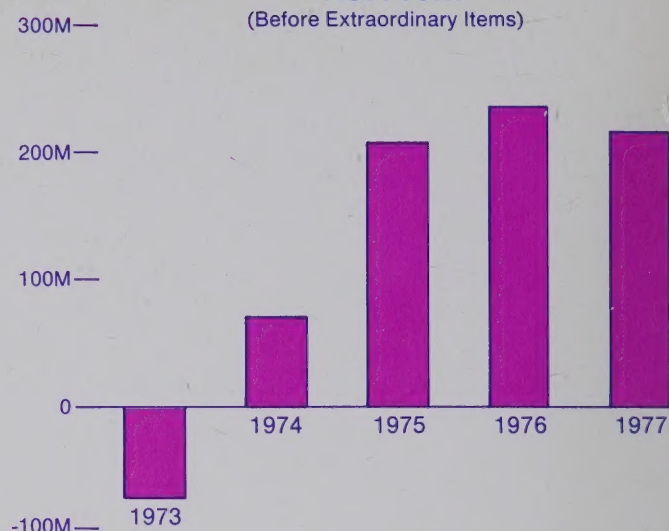
million

\$ Sales

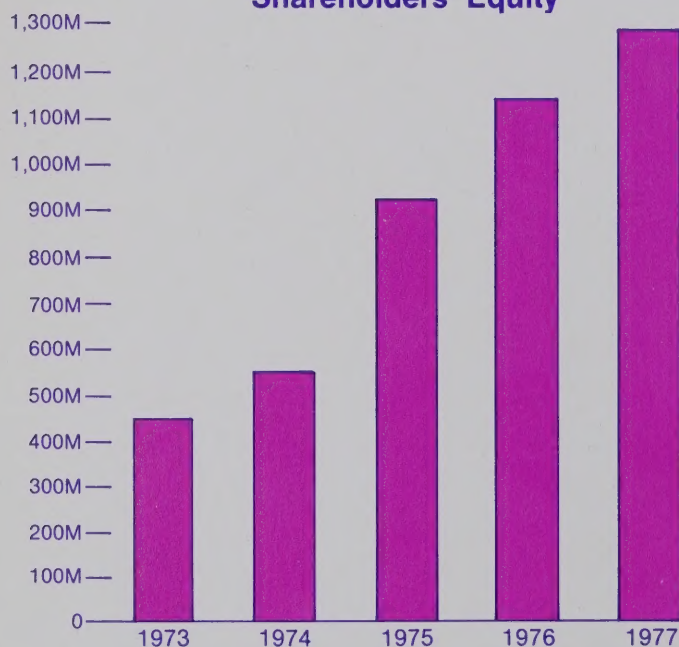


Net Profit

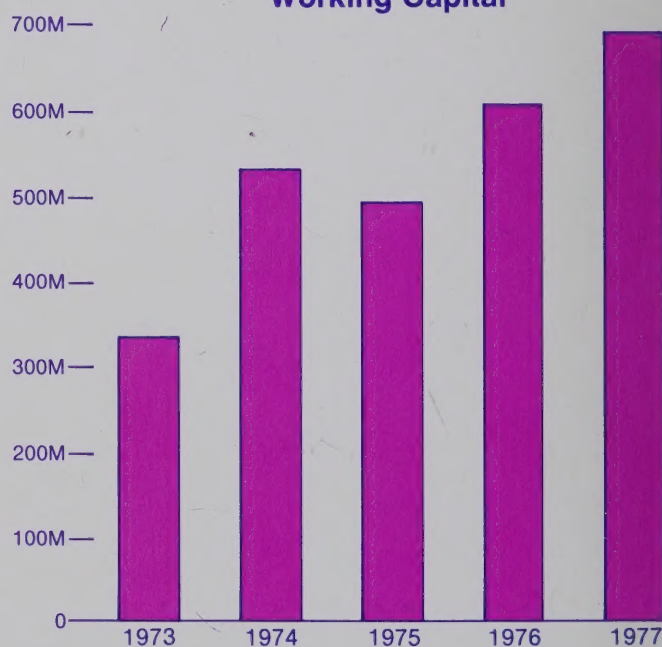
(Before Extraordinary Items)



Shareholders' Equity



Working Capital



Balance Sheet Highlights

\$000	1973	1974	1975	1976	1977
Current Liabilities	\$2,802	\$1,624	\$1,374	\$1,290	\$1,375
Total Liabilities	3,393	2,124	1,374	1,290	1,375
Current Assets	3,132	2,169	1,876	1,900	2,060
Tangible Assets	3,490	2,374	2,046	2,208	2,440
Shareholders' Equity	457	582	907	1,145	1,291
Working Capital	329	545	492	614	691

Operating Highlights

\$000	1973	1974	1975	1976	1977
Sales	\$12,244	\$13,066	\$15,284	\$16,264	\$17,379
Gross Profit	(69)	124	447	477	413
Profit before Extraordinary Items	(67)	60	202	233	217
Earnings per share	(11.2¢)	9.8¢	32.6¢	37.6¢	35.1¢
Net Profit including Extraordinary Items	(428)	125	338	239	221
Per Share including Extraordinary Items	(69.8¢)	20.1¢	54.4¢	38.6¢	37.5¢

STUART HOUSE INTERNATIONAL LIMITED

DIRECTORS

John Lyon Stuart	Executive
Howard Maitman	Executive
Bill Harding	Executive
Charlie Hoy	Executive
Tyrus Ebata	Executive

CHIEF EXECUTIVE OFFICERS

President	John Lyon Stuart
Vice-President — Sales Eastern Canada	A. W. (Bill) Harding
Vice-President — Sales Western Canada	C. E. (Chas.) Hoy
Vice-President — Finance	Howard Maitman
Secretary	Tyrus Ebata

AUDITORS

Resnick, Wintraub & Co.	Toronto, Ontario
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BANKERS

The Royal Bank of Canada

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company, Toronto and Calgary

SUBSIDIARY COMPANIES

Stuart House Canada Limited	Weston, Ontario
Burlington Packaging Limited	Burlington, Ontario
Romar Pet Supplies Limited	Weston, Ontario

PRESIDENT'S LETTER

To The Shareholders:

Fiscal 1977 was a year in which your company's main efforts were directed at completing the expansion and refinement of our marketing structure. At the same time, we had to counter continued strong efforts from our competitors in the field as they attempted to hold or increase their share of the market. The result was that, while we were able to maintain our rate of sales increase for the year, it cost us more to get those sales, and profits actually declined slightly.

M Sales for the twelve months ended February 28, 1977, set a new record for the company as they increased by \$1,100,000 over the previous twelve month period, to \$17,380,000 for this year.

It is also a fact that the Anti-Inflation Board has not been a great boon to your company's profits in the last twelve months. While the pressures of AIB kept increases in our selling prices to a minimum, many of our costs were not under the AIB's control. As a national sales company, increases in gasoline prices and freight costs are particularly important factors for us to contend with, and in percentage terms these expenses have risen much more than our revenue increases.

Net Profit for the year declined by 7.5% to \$221,800 (35.7¢ per share) for this year, as compared with \$239,800 (38.6¢ per share) for this twelve month period a year earlier.

However, Working Capital increased another 12% to \$691,000 at the end of the year. We were also pleased to see that the Shareholders' Equity in the company rose to \$1,291,000, an increase of 182% since your present management team took over, four years ago.

We are going to continue our efforts to strengthen the company, both in sales and financial results. However, as this is going to press, I see that in the first quarter of 1977-78, our profits declined from \$110,500 (17.8¢ per share) to \$39,200 (6.3¢ per share). If you compare last year's first quarter results with those for the whole of last year, you can see that it was an exceptionally good quarter. That quarter was the peak in demand for a very successful candy item that produced sensational sales and excellent profit for us. Now, we have at least two imitating competitors, and that has reduced sales and profits to a more normal level. So, while we don't expect to make up the shortfall in first quarter profits in the balance of the year, management forecasts indicate that the final nine months of the year will be close to, or even slightly better than, the previous year's final three quarters.

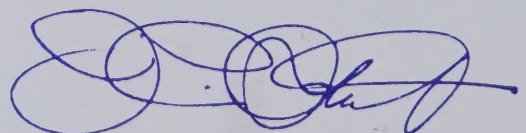
Since the year end, we also approved payment of a further dividend of 14¢ per share on your common shares. This dividend was payable May 6th, 1977, and was an annual dividend in respect to our results for the year ending February 29, 1976. Consideration is now being given to the payment of a dividend in respect to the year ended February 28, 1977.

Finally, we have been advised that the Ontario Securities Commission has completely lifted the cease trading order on the company's shares. We are therefore proceeding with an application for the reinstatement of the common shares for trading to the Toronto Stock Exchange.

Considering all of these factors, we really meant it when we told our key employees that, "We are even more pleased with the great job done by our people this year, than we were with last year's results."

I hope you agree.

Yours truly,



J. L. STUART,
President

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED FEBRUARY 28, 1977

(with comparative figures for 1976)

	1977	1976
Sales		
Warehouse sales	\$10,047,286	\$ 9,370,560
Commission sales	7,332,504	6,894,291
	\$17,379,790	\$ 16,264,851
Gross margin on warehouse sales	3,279,529	3,045,129
Commission income	489,602	451,257
	3,679,131	3,496,386
Selling and administrative expenses	3,309,657	2,942,998
Depreciation	41,384	52,229
Interest expense	4,151	23,749
	3,355,192	3,018,976
Profit before income taxes and extraordinary items	413,939	477,410
Income taxes	194,809	237,045
	219,130	240,365
Minority interest — share of profit of a subsidiary	1,320	6,543
Profit before extraordinary items	217,810	233,822
Extraordinary items (Note 8)	3,985	5,930
Net profit for the year	\$ 221,795	\$ 239,752
Earnings per share:		
Before extraordinary items	35.1¢	37.6¢
Extraordinary items	0.6	1.0
Net profit for the year	35.7¢	38.6¢

(See accompanying notes to financial statements)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

FOR THE YEAR ENDED FEBRUARY 28, 1977

(with comparative figures for 1976)

	1977	1976
Deficit, beginning of year	\$ 8,544	\$ 246,822
Net profit for the year	221,795	239,752
	213,251	7,070
Dividends paid on — Preferred shares	1,474	1,474
— Common shares	74,593	—
	76,076	1,474
	137,184	8,544
Increase in cash surrender value of life insurance in excess of premiums paid	72	—
Retained Earnings (Deficit), end of year	\$ 137,256	\$ (8,544)

(See accompanying notes to financial statements)

STUART HOUSE INT

(Incorporated under

CONSOLIDATED BALANCE SHEET

(with comparative figures)

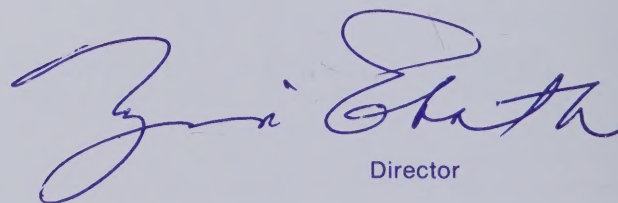
ASSETS

	1977	1976
Current assets		
Accounts receivable	\$ 798,907	\$ 828,340
Inventories, at lower of cost or net realizable value	1,252,733	1,054,280
Prepaid expenses	14,874	16,906
	<u>2,066,514</u>	<u>1,899,526</u>
Investments		
Loans receivable (Note 9)	227,066	111,890
Shares, at cost	—	1,296
Cash surrender value of life insurance (Note 7)	9,390	36,693
	<u>236,456</u>	<u>149,879</u>
Fixed Assets		
Land, building, machinery and equipment (Note 2)	136,630	158,860
Other assets		
Excess of cost of investments in subsidiaries over net book value at acquisition (Note 1)	264,014	264,014
	<u>\$2,703,614</u>	<u>\$2,472,279</u>

Approved on behalf of the Board



Director



Director

AUDITORS' REPORT
To the Shareholders of
Stuart House International Limited

We have examined the consolidated balance sheet of Stuart House International Limited as at February 28, 1977 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

INTERNATIONAL LIMITED

(Laws of Canada)

STATEMENT AS AT FEBRUARY 28, 1977

(February 29, 1976)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1977	1976
Current liabilities		
Bank overdraft (Note 3)	\$ 44,472	\$ 59,333
Income taxes payable	59,554	194,229
Accounts payable and accrued liabilities	1,271,597	1,037,111
	<u>1,375,623</u>	<u>1,290,673</u>
Minority interest in subsidiary	36,715	36,130
Shareholders' equity		
Capital Stock		
Authorized		
100,000 Preferred shares of \$8 par value each issuable in series		
1,000,000 Common shares, without par value		
Issued		
3,070 6% cumulative redeemable convertible preferred shares, Series A.....	24,560	24,560
621,610 Common shares	1,072,580	1,072,580
	<u>1,097,140</u>	<u>1,097,140</u>
Capital Surplus	56,880	56,880
Retained Earnings (Deficit)	137,256	(8,544)
	<u>1,291,276</u>	<u>1,145,476</u>
	<u>\$2,703,614</u>	<u>\$2,472,279</u>

(See accompanying notes to financial statements)

In our opinion these financial statements present fairly the consolidated financial position of the companies as at February 28, 1977 and the results of their operations and changes in financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with the preceding year.

Resnick, Wintraub & Co.

Chartered Accountants

Toronto, Ontario, May 3, 1977

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED FEBRUARY 28, 1977

(with comparative figures for 1976)

	1977	1976
Source of funds		
Net profit for the year	\$ 221,795	\$ 239,752
Add: Items not requiring an outlay of funds		
Depreciation	41,384	52,299
Write-down of fixed assets	—	37,840
Minority interest — share of profit of a subsidiary	1,320	6,543
Funds from operations	264,499	336,364
Proceeds from loans on CSV of life insurance	34,066	1,616
Proceeds from disposal of fixed assets	1,500	8,833
Recovery of goodwill	—	(5)
Proceeds on sales of investment	1,296	—
	<u>301,361</u>	<u>346,808</u>
Use of funds		
Purchase of fixed assets	20,654	124,402
Increase in loans receivable	115,176	98,755
Dividends paid on — preferred shares	1,474	-1,474
— common shares	74,593	—
Increase in cash surrender value of life insurance (net of premium paid)	6,691	2,788
Purchase of minority interest	735	—
	<u>219,323</u>	<u>227,419</u>
Increase in working capital	82,038	119,389
Working capital, beginning of year	608,853	489,464
Working capital, end of year	<u>\$690,891</u>	<u>\$608,853</u>
Working capital represented by:		
Current assets	\$2,066,514	\$1,899,526
Current liabilities	1,375,623	1,290,673
	<u>\$ 690,891</u>	<u>\$ 608,853</u>

(See accompanying notes to financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 1977

1: SUBSIDIARY COMPANIES

The accompanying financial statements consolidate the accounts of the company and all of its subsidiaries:

	Ownership of Voting Stock
Stuart House Canada Limited	100.0%
Romar Pet Supplies Limited	100.0%
Burlington Packaging Limited	92.7%

Details of excess of cost of investments in subsidiaries over net book value at acquisition:

Romar Pet Supplies Limited	\$ 245,838
West Taylor Bickle Division	18,176
	<u>\$ 264,014</u>

2: FIXED ASSETS

The major categories of fixed assets at February 28, 1977 are as follows:

	Cost	Accumulated Depreciation	Net Book Value	Rates
Buildings	\$ 35,642	\$ 28,078	\$ 7,564	5%
Machinery and equipment	511,186	461,195	49,991	20%
Vehicles	53,039	27,328	25,711	30%
Aircraft	49,755	31,843	17,912	40%
Leasehold improvements	44,473	10,421	34,052	
	694,095	448,865	135,230	
Land	1,400	—	1,400	
	<u>\$ 695,495</u>	<u>\$ 558,865</u>	<u>\$ 136,630</u>	

Straight-line depreciation is written on leasehold improvements over the terms of the leases, and the diminishing balance method is applied to the other depreciable assets at the rates shown above.

3: BANK OVERDRAFT

The accounts receivable and inventories have been specifically pledged as security for the bank indebtedness. The bank loan is nil as at February 28, 1977.

4: CAPITAL STOCK

Under the company's employee stock purchase plan common shares may be purchased in September each year in lots of ten at the then current market price, and payment may be spread over three years. The total number of shares available under this plan is 15,790. During the year the employees have not exercised the option and no common shares have been issued.

The conversion privilege attached to the series A preferred shares expired on May 1, 1974.

5: LEASE AND OTHER COMMITMENTS

The company has signed an agreement in a prior year with a shareholder, Stuart (Nassau) Limited, for Nassau to provide it with consulting and advisory services at a rate of \$30,000 per annum. This agreement expires December 31, 1982.

The company and its subsidiaries are committed to annual rentals under leases as follows:

1977 — \$119,368; 1978-79 — \$30,468; 1980 — \$50,458;

1981-1991 — \$32,968.

6: DIRECTORS' REMUNERATION

The aggregate remuneration (none of which was to the directors as such) charged to consolidated earnings for the year ended February 28, 1977 in respect of five directors (all of whom were also officers) was \$264,325 (\$243,714 in 1976) all of which was paid by Stuart House Canada Limited.

7: CASH SURRENDER VALUE OF LIFE INSURANCE

Cash surrender value of life insurance is stated net of loans of \$154,871 (1976 — \$120,805).

8: EXTRAORDINARY ITEMS

	1977	1976
Write-down of fixed assets	\$ —	\$(37,840)
Income tax reductions realized due to prior year's losses carry-forward	3,985	43,770
	<u>\$ 3,985</u>	<u>\$ 5,930</u>

9: LOANS RECEIVABLE

Loans receivable are secured by mortgages on property. These loans were made by a subsidiary to employees who are also directors for the purpose of creating or purchasing dwellings.

10: COMPARATIVE FIGURES

Certain figures on the 1976 comparative figures have been restated to conform with the statement presentation adopted in 1977.

11: SUBSEQUENT EVENT

Subsequent to the year end, the company declared a dividend of fourteen cents (14¢) per share on the outstanding common shares. The total dividend payable amounted to \$87,025.

In addition to the goods which we manufacture and sell under the Stuart House label, we are proud to represent the following companies as Sales Agents for their products in all or part of Canada

Barnes-Hind Pharmaceuticals,
Sunnyvale, California.

BARNES-HIND SOLUTIONS, ETC.,
FOR CONTACT LENSES

W. T. Hawkins Limited,
Belleville, Ontario.

CHEEZIES, MAGIC-POP POPPING CORN

~~LePage's Limited,
Toronto, Ontario.~~

GLUES AND ADHESIVES

Lewis-Howe Company Limited,
Windsor, Ontario.

TUMS AND NATURE'S REMEDY

Swizzels Matlow Ltd.
New Mills, England.

IMPORTED ENGLISH CONFECTIONERY

Wampole Ltd.
Don Mills Ont.

BRONZTAN SUNTAN PRODUCTS

Polymer International (N.S.) Limited,
Truro, Nova Scotia.

PLASTIC GARBAGE BAGS

Purity Popcorn Co., Ltd.
Toronto, Ontario.

LUCKY ELEPHANT POPCORN

Romar Pet Supplies Limited,
Weston, Ontario.

ROMAR 90 DOG & CAT FOOD

Primo Importing & Dist. Co.
Montreal, Quebec.

PRIMO SPAGHETTI, ETC.

American Candy Mfg.
Selma, Alabama.

ELAINE'S OLD FASHIONED
CANDY STICKS

Stuart House International Limited
22 Lido Road, Weston, Ontario, Canada M9M 1M6